



JON M. HUNTSMAN, JR.  
Governor

GARY R. HERBERT  
Lieutenant Governor

**State of Utah**  
**DEPARTMENT OF NATURAL RESOURCES**  
**Division of Oil, Gas & Mining**

MICHAEL R. STYLER  
Executive Director

JOHN R. BAZA  
Division Director

January 11, 2008

David Penney  
Penney's Gemstones, LLC  
2400 East 30 South  
P.O. Box 312  
Beaver, Utah 84713-0312

Subject: Approval of Reclamation Surety and Reclamation Contract, Penney's Gemstones LLC,  
Little Spot, S/027/024, Beaver County, Utah

Dear Mr. Penney:

On August 21, 2007, the Director of the Division of Oil, Gas and Mining signed the reclamation contract for the Little Spot Project Notice of Intention to Conduct Small mining, file number S/027/024. You now have Division approval of the form and amount of surety for the above referenced site. A copy of the executed reclamation contract/surety is enclosed for your records.

If you have questions or concerns regarding this letter, please contact me at (801) 538-5325 or Tom Munson at 538-5321. Thank you for your help in completing this very important regulatory requirement.

Sincerely,

Daron R. Haddock  
Permit Supervisor  
Minerals Regulatory Program

DRH:pb

Enclosure: reclamation contract/surety

cc: Opie-abeyta@blm.gov

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STATE OF UTAH  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION of OIL, GAS and MINING  
1594 West North Temple, Suite 1210  
Box 145801  
Salt Lake City, Utah 84114-5801  
(801) 538-5291  
Fax: (801) 359-3940

---ooOoo---

SMALL MINE RECLAMATION CONTRACT

This Reclamation Contract (hereinafter referred to as "Contract") is entered into between **David Penney aka Penney's Gemstones** the "Operator" and the Utah State Division of Oil, Gas and Mining ("Division").

WHEREAS, Operator desires to conduct mining operations under Notice of Intention (NOI) File No. **S/027/024** which the Operator has filed with the Division and has been determined by the Division to be complete (Complete NOI) as required by the Utah Mined Land Reclamation Act, Sections 40-8-1 et seq., Utah Code Annotated, (2005, as amended) (hereinafter referred to as "Act") and the regulations adopted pursuant to the Act; and

WHEREAS, Operator is obligated to reclaim the lands affected by the mining operations in accordance with the Act and the regulations, and is obligated to provide a surety in a form and amount approved by the Division or the Board of Oil, Gas and Mining (Board) to assure reclamation of the lands affected by the mining operations.

NOW, THEREFORE, the Division and the Operator agree as follows:

1. Operator agrees to promptly reclaim in accordance with the requirements of the Act and applicable regulations, as they may be amended, all of the lands affected by the mining operations conducted or to be conducted pursuant to a Complete Notice of Intention.
2. The Lands Affected by the mining operations and subject to the requirements of the Act and this Contract include:

- A. All surface and subsurface areas affected or to be affected by the mining operations including but not limited to private on-site ways, roads, railroads; land excavations; drill sites and

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workings; refuse banks or spoil piles; evaporation or settling ponds; stockpiles; leaching dumps; placer areas; tailings ponds or dumps; work, parking, storage, and waste discharge areas, structures, and facilities; and

- B. All mining disturbances regardless of discrepancies in the map and legal description, unless explicitly and clearly identified as EXCLUDED on maps, and legal descriptions included in the Complete NOI; provided lands may be excluded only if: (1) they were disturbed by mining operations that ceased prior to July 1, 1977; (2) the lands would be included but have been reclaimed in accordance with a complete notice or reclamation plan; or (3) the lands were disturbed by a prior operation for which there is no surety, no legally responsible entity or person, and which lands are not necessarily or incidentally intended to be affected by the mining operations as described in the Complete NOI.
3. The Operator shall be responsible for reclamation of all such Lands Affected regardless of errors or discrepancies in the maps or legal descriptions provided with the NOI which are intended to assist in determining the location of the mining operations, to describe the areas of disturbance, and to assist estimating the amount of surety required.
4. The Operator prior to commencement of any mining operations and as a precondition to the rights under the Notice of Intention shall provide a surety in a form permitted by the Act and in an amount sufficient to assure that reclamation of the Lands Affected will be completed as required by the Act. The Surety shall remain in full force and effect according to its terms unless modified by the Division in writing. A copy of the agreement providing for the Surety for the reclamation obligations herein is included as **ATTACHMENT A** to this Contract.
5. If the Surety expressly provides for cancellation or termination for non-renewal:
- A. The Operator shall within 60 days following the Division's receipt of notice that the Surety will be terminated or cancelled, provide a replacement Surety sufficient in a form and amount, as required by the Act, to replace the cancelled surety; or
  - B. If the Operator fails to provide an acceptable replacement Surety within 60 days of notice of cancellation or termination, the Division may order the Operator to cease further mining activities, and without further notice proceed to draw upon letters of credit, to withdraw any amounts in certificates of deposit or cash and/or any other forms of surety, and to otherwise take such action as may be necessary to secure the rights of the Division to perfect its claim on the existing surety



for the purpose of fully satisfying all of the reclamation obligations incurred by the Operator prior to the date of termination, and the Division may thereafter require the Operator to begin immediate reclamation of the Lands Affected by the mining operations, and may, if necessary, proceed to take such further actions as may be required for the Division to forfeit the surety for the purpose of reclaiming the Lands Affected.

6. The Operator's liability under this Contract shall continue in full force and effect until the Division finds that the Operator has reclaimed the Lands Affected by mining operations in accordance with the Act and regulations, as amended. If the mining operations are modified or for any other reason vary from those described in the Complete Notice of Intention, the Operator shall immediately advise the Division, and the Notice of Intention shall be revised and the Surety amount shall be adjusted as necessary.
7. If reclamation of a substantial phase or segment of the Lands Affected by the mining operations is completed to the satisfaction of the Division, and the Division finds that such substantial phases or segments are severable from the remainder of the mining area, Operator may request the Division to find that Operator has reclaimed such area. If the Division makes such finding, Operator may make request to the Division for a reduction in the aggregate face amount of the Surety, and the Division may reduce the surety to an amount necessary to complete reclamation of the remaining mining operations as anticipated by the Complete Notice of Intention in accordance with the requirements of the Act and regulations, as amended.
8. Operator may, at any time, submit a request to the Division to substitute surety. The Division may approve such substitution if the substitute surety meets the requirements of the Act and the applicable rules.
9. Operator agrees to pay all legally determined public liability and property damage claims resulting from mining operations, to pay all permit fees, to maintain suitable records, to file all required reports, to permit reasonable inspections, and to fulfill all sundry reporting requirements applicable to the mine as required by the Act and implementing rules.
10. Operator agrees to indemnify and hold harmless the State, Board, and the Division from any claim, demand, liability, cost, charge, suit, or obligation of whatsoever nature arising from the failure of Operator or Operator's agents and employees, or contractors to comply with this Contract.
11. If Operator shall default in the performance of its obligations hereunder, Operator shall be liable for all damages resulting from the breach hereof including all costs, expenses, and reasonable attorney's fees incurred by the Division and/or the Board in the enforcement of this Contract.

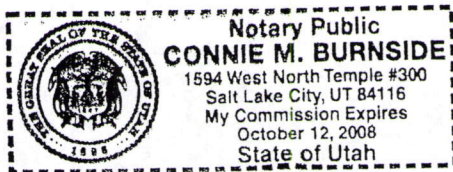


DIVISION OF OIL, GAS AND MINING:

By Mary Ann Wright Date August 21, 2007  
for John R. Baza Director Mary Ann Wright  
Associate Director

STATE OF Utah)  
COUNTY OF Salt Lake) ss:

On the 21<sup>st</sup> day of August, 2007, Mary Ann Wright  
personally appeared before me, who being duly sworn did say that she, the said  
Mary Ann Wright is the Director of the Division of Oil, Gas and Mining,  
Department of Natural Resources, State of Utah, and she duly acknowledged to me that  
she executed the foregoing document by authority of law on behalf of the State of Utah.



Connie M. Burnside  
Notary Public  
Residing at: SLC, UT

Oct. 12, 2008  
My Commission Expires:



## FACT SHEET

Commodity: OBSIDIAN  
Mine Name: Little Spot  
County: Millard  
Disturbed Acres: five (5)

Operator Name: David Penney aka Penney's Gemstones  
Operator address: 2400 E 30 S BOX 312 BEAVER UT 84713-0312  
Operator telephone: (435) 438-5522  
Contact: David Penney  
Operator email: ep7@xmission.com

***There is indication the Operator has submitted a Nationwide bond to the BLM in the amount of \$50000.00. The Division has a copy of this bond. In order to meet Division regulatory requirements, the Division must be named as co-beneficiary on this Nationwide Bond in the form of a Letter of Credit. Please contact the bank and ask them to contact the Division for instructions and/or issue an amendment to the LOC listing the Division as co-beneficiary.***

The BLM administers the following surety:

Surety Type: Letter of Credit  
Bank Name: Utah Independent Bank  
Surety Amount: \$50000.00 of which \$9800.00 is reclamation surety for Little Spot  
Account number: \_\_\_\_\_  
Surety Contact Name: Craig A. White  
Surety Contact telephone: 435 438 2433  
Surety Contact email: \_\_\_\_\_

The State of Utah administers the following surety:

Surety Type: Letter of Credit  
Bank Name: Utah Independent Bank  
Surety Amount: \$8800.00  
Account number: \_\_\_\_\_  
Surety Contact Name: Craig A. White  
Surety Contact telephone: 435 438 2433  
Surety Contact email: \_\_\_\_\_





*A Full Service Bank ♦ FDIC Insured*

PO Box 1030  
195 N. Main  
Beaver, UT 84713  
Phone (435) 438-2433  
Fax (435) 438-5885

March 6, 2006

**Letter of Credit #34108910**

UTAH DIVISION OF OIL, GAS AND MINING  
1594 West North Temple Suite 1210  
Box 145801  
Salt Lake City, UT 84114-5801

and

UNITED STATES BUREAU OF LAND MANAGEMENT (BLM)  
Utah State Office  
324 So. State  
Salt Lake City, UT 84145

RE: PENNEY'S GEMSTONES, LLC  
LITTLE SPOT MINE

Gentlemen and Ladies:

1. Utah Independent Bank of Beaver, Utah, hereby establishes this Irrevocable Letter of Credit (the "Letter of Credit") in favor of the Utah Division of Oil, Gas and Mining ("Division") for itself and as agent for the BLM ("collectively, the "Beneficiaries") for an aggregate amount not to exceed Eight Thousand Eight Hundred and no/100-----(\$8,800.00) in United States dollars ("face amount") effective immediately; on behalf of Penny's Gemstones, LLC ("Operator") for Little Spot Mining operation under Mine Permit No. S/027/024.
2. This Letter of Credit will expire upon the first event set forth as follows: (a) 5:00 o'clock pm (Salt Lake City time) on March 6<sup>th</sup>, 2007 or (b) the date upon which sufficient documents are executed by the Division to release Penney's Gemstones, LLC from further liability for reclamation of the Little Spot Mine, mine permit #S/027/024, with notice to Bank or Bank by the Division accompanied by the original Letter of Credit with directions for cancellation.

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3. This Letter of Credit will be automatically extended for successive periods of one year from the current or any future expiration date unless 90 days prior to the expiration date the Bank gives notice to the Division by any courier service or by registered United States mail "return receipt requested" that the Bank elects NOT to renew the Letter of Credit.
4. Funds under the Letter of Credit are available against the Division's sight draft, in the form of Exhibit A, specifying Letter of Credit No. 34108910 delivered to the office of Utah Independent Bank, 195 North Main, Beaver, Utah 84713. At the Division's sole election, the Division may present sight drafts for less than the Face Amount so long as the aggregate amount of all sight drafts does not exceed the Face Amount. Each draft must be accompanied by a certificate in the form of Exhibit B, signed by a duly authorized representative of the Division.
5. If the Bank receives the Division's sight draft(s) and certificate(s) as provided in Paragraph No. 4 above on or before the expiration or termination of this Letter of Credit, the Bank will make such amount as the Division may specify, within the limits of the second sentence of Paragraph No. 4 of this Letter of Credit, available to the Division no later than the close of business, Salt Lake City time, on the second business day following the Bank's receipt of the sight draft and certificate and in such a manner as the Division may specify.
6. The Bank will give prompt notice to the Operator and to the Division Director of any notice received or action filed alleging the insolvency or bankruptcy of the Bank, or alleging any violations of regulatory requirements, which could result in suspension or revocation of the Bank's charter or license to do business.
7. The Letter of Credit will be governed by the laws of the State of Utah and shall be subject to the Uniform Customs and Practice for Documentary Credit, 1993 revision, International Chamber of Commerce Publication No. 500, as the same may be amended and in effect from time to time ("UCP"). In the event of a conflict between Utah law and the UCP, Utah law shall govern.
8. Proceeds of this drawing will be held by the Division, subject to the Board of Oil, Gas and Mining, after Notice of Hearing, ordering forfeiture of the Bank in accordance with applicable law utilized in full to pay the expenses relating to the reclamation liability, together with the costs of collection, including attorney's fees for the Little Spot Mine, permit No. S/027/024.
9. All communications regarding this Letter of Credit will be addressed to Utah Independent Bank, PO Box 1030, Beaver, Utah 84713, referencing Letter of Credit No. 34108910.

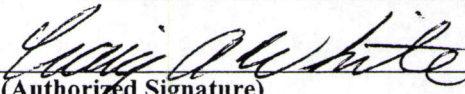


10. In the event of Bank cancellation of this Letter of Credit, the Division may present the sight draft(s) to assure or complete reclamation if the Operator does not replace the Letter of Credit within the ninety days of Bank cancellation notice.

Very Truly Yours,

UTAH INDEPENDENT BANK

By: Craig A. White

  
(Authorized Signature)

Title: President



EXHIBIT A – SIGHT DRAFT

to  
Letter of Credit Number \_\_\_\_\_

Date	City, County	Letter of Credit No.
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PAY TO THE ORDER OF: Utah Division of Oil, Gas and Mining,

\_\_\_\_\_ DOLLARS

TO: Utah Independent Bank  
P.O. Box 1030  
Beaver, UT 84713

Utah Division of Oil, Gas and Mining  
1594 West North Temple Suite 1210  
Box 145801  
Salt Lake City, Utah 84114-5801

By: \_\_\_\_\_  
Authorized Signature



EXHIBIT B  
To  
Letter of Credit Number \_\_\_\_\_

I, \_\_\_\_\_ a duly authorized representative of the Utah  
Division of Oil, Gas and Mining, hereby certify that (1) the drawing in the amount of  
\$ \_\_\_\_\_, by sight draft accompanying this certificate, under  
Letter of Credit No. \_\_\_\_\_ dated \_\_\_\_\_ issued by you is permitted  
under the provision of the Letter of Credit, (2) the Letter of Credit has neither expired nor  
terminated pursuant to its terms, (3) the amount of the sight draft, together with any  
amounts previously drawn under the Letter of Credit, does not exceed the Face Amount,  
and (4) the amount to be drawn is necessary to assure or complete reclamation of the  
\_\_\_\_\_ (name of mining project), number \_\_\_\_\_ (permit number) in  
accordance with applicable law.

The Utah Division of Oil, Gas and Mining

By: \_\_\_\_\_  
Authorized Signature

Date \_\_\_\_\_





JON M. HUNTSMAN, JR.  
Governor

GARY R. HERBERT  
Lieutenant Governor

**State of Utah**  
**DEPARTMENT OF NATURAL RESOURCES**  
**Division of Oil, Gas & Mining**

MICHAEL R. STYLER  
Executive Director

JOHN R. BAZA  
Division Director

January 11, 2008

David Penney  
Penney's Gemstones, LLC  
2400 East 30 South  
P.O. Box 312  
Beaver, Utah 84713-0312

Subject: Approval of Reclamation Surety and Reclamation Contract, Penney's Gemstones LLC,  
Little Spot, S/027/024, Beaver County, Utah

Dear Mr. Penney:

On August 21, 2007, the Director of the Division of Oil, Gas and Mining signed the reclamation contract for the Little Spot Project Notice of Intention to Conduct Small mining, file number S/027/024. You now have Division approval of the form and amount of surety for the above referenced site. A copy of the executed reclamation contract/surety is enclosed for your records.

If you have questions or concerns regarding this letter, please contact me at (801) 538-5325 or Tom Munson at 538-5321. Thank you for your help in completing this very important regulatory requirement.

Sincerely,

Daron R. Haddock  
Permit Supervisor  
Minerals Regulatory Program

DRH:pb

Enclosure: reclamation contract/surety

cc: Opie-abeyta@blm.gov

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**STATE OF UTAH**  
**DEPARTMENT OF NATURAL RESOURCES**  
**DIVISION of OIL, GAS and MINING**  
1594 West North Temple, Suite 1210  
Box 145801  
Salt Lake City, Utah 84114-5801  
(801) 538-5291  
Fax: (801) 359-3940

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**SMALL MINE RECLAMATION CONTRACT**

This Reclamation Contract (hereinafter referred to as "Contract") is entered into between **David Penney aka Penney's Gemstones** the "Operator" and the Utah State Division of Oil, Gas and Mining ("Division").

WHEREAS, Operator desires to conduct mining operations under Notice of Intention (NOI) File No. **S/027/024** which the Operator has filed with the Division and has been determined by the Division to be complete (Complete NOI) as required by the Utah Mined Land Reclamation Act, Sections 40-8-1 et seq., Utah Code Annotated, (2005, as amended) (hereinafter referred to as "Act") and the regulations adopted pursuant to the Act; and

WHEREAS, Operator is obligated to reclaim the lands affected by the mining operations in accordance with the Act and the regulations, and is obligated to provide a surety in a form and amount approved by the Division or the Board of Oil, Gas and Mining (Board) to assure reclamation of the lands affected by the mining operations.

NOW, THEREFORE, the Division and the Operator agree as follows:

1. Operator agrees to promptly reclaim in accordance with the requirements of the Act and applicable regulations, as they may be amended, all of the lands affected by the mining operations conducted or to be conducted pursuant to a Complete Notice of Intention.
2. The Lands Affected by the mining operations and subject to the requirements of the Act and this Contract include:

- A. All surface and subsurface areas affected or to be affected by the mining operations including but not limited to private on-site ways, roads, railroads; land excavations; drill sites and

☒ **APPROVED**



workings; refuse banks or spoil piles; evaporation or settling ponds; stockpiles; leaching dumps; placer areas; tailings ponds or dumps; work, parking, storage, and waste discharge areas, structures, and facilities; and

- B. All mining disturbances regardless of discrepancies in the map and legal description, unless explicitly and clearly identified as EXCLUDED on maps, and legal descriptions included in the Complete NOI; provided lands may be excluded only if: (1) they were disturbed by mining operations that ceased prior to July 1, 1977; (2) the lands would be included but have been reclaimed in accordance with a complete notice or reclamation plan; or (3) the lands were disturbed by a prior operation for which there is no surety, no legally responsible entity or person, and which lands are not necessarily or incidentally intended to be affected by the mining operations as described in the Complete NOI.
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  - 4. The Operator prior to commencement of any mining operations and as a precondition to the rights under the Notice of Intention shall provide a surety in a form permitted by the Act and in an amount sufficient to assure that reclamation of the Lands Affected will be completed as required by the Act. The Surety shall remain in full force and effect according to its terms unless modified by the Division in writing. A copy of the agreement providing for the Surety for the reclamation obligations herein is included as **ATTACHMENT A** to this Contract.
  - 5. If the Surety expressly provides for cancellation or termination for non-renewal:
    - A. The Operator shall within 60 days following the Division's receipt of notice that the Surety will be terminated or cancelled, provide a replacement Surety sufficient in a form and amount, as required by the Act, to replace the cancelled surety; or
    - B. If the Operator fails to provide an acceptable replacement Surety within 60 days of notice of cancellation or termination, the Division may order the Operator to cease further mining activities, and without further notice proceed to draw upon letters of credit, to withdraw any amounts in certificates of deposit or cash and/or any other forms of surety, and to otherwise take such action as may be necessary to secure the rights of the Division to perfect its claim on the existing surety



for the purpose of fully satisfying all of the reclamation obligations incurred by the Operator prior to the date of termination, and the Division may thereafter require the Operator to begin immediate reclamation of the Lands Affected by the mining operations, and may, if necessary, proceed to take such further actions as may be required for the Division to forfeit the surety for the purpose of reclaiming the Lands Affected.

6. The Operator's liability under this Contract shall continue in full force and effect until the Division finds that the Operator has reclaimed the Lands Affected by mining operations in accordance with the Act and regulations, as amended. If the mining operations are modified or for any other reason vary from those described in the Complete Notice of Intention, the Operator shall immediately advise the Division, and the Notice of Intention shall be revised and the Surety amount shall be adjusted as necessary.
7. If reclamation of a substantial phase or segment of the Lands Affected by the mining operations is completed to the satisfaction of the Division, and the Division finds that such substantial phases or segments are severable from the remainder of the mining area, Operator may request the Division to find that Operator has reclaimed such area. If the Division makes such finding, Operator may make request to the Division for a reduction in the aggregate face amount of the Surety, and the Division may reduce the surety to an amount necessary to complete reclamation of the remaining mining operations as anticipated by the Complete Notice of Intention in accordance with the requirements of the Act and regulations, as amended.
8. Operator may, at any time, submit a request to the Division to substitute surety. The Division may approve such substitution if the substitute surety meets the requirements of the Act and the applicable rules.
9. Operator agrees to pay all legally determined public liability and property damage claims resulting from mining operations, to pay all permit fees, to maintain suitable records, to file all required reports, to permit reasonable inspections, and to fulfill all sundry reporting requirements applicable to the mine as required by the Act and implementing rules.
10. Operator agrees to indemnify and hold harmless the State, Board, and the Division from any claim, demand, liability, cost, charge, suit, or obligation of whatsoever nature arising from the failure of Operator or Operator's agents and employees, or contractors to comply with this Contract.
11. If Operator shall default in the performance of its obligations hereunder, Operator shall be liable for all damages resulting from the breach hereof including all costs, expenses, and reasonable attorney's fees incurred by the Division and/or the Board in the enforcement of this Contract.



DIVISION OF OIL, GAS AND MINING:

By Mary Ann Wright Date August 21, 2007  
for John R. Baza, Director Mary Ann Wright  
Associate Director

STATE OF Utah )  
COUNTY OF Salt Lake ) ss:

On the 21<sup>st</sup> day of August, 2007, Mary Ann Wright  
personally appeared before me, who being duly sworn did say that she, the said  
Mary Ann Wright is the Director of the Division of Oil, Gas and Mining,  
Department of Natural Resources, State of Utah, and she duly acknowledged to me that  
she executed the foregoing document by authority of law on behalf of the State of Utah.



Connie M. Burnside  
Notary Public  
Residing at: SLC, UT

Oct. 12, 2008  
My Commission Expires:



## FACT SHEET

Commodity: OBSIDIAN  
Mine Name: Little Spot  
County: Millard  
Disturbed Acres: five (5)

Operator Name: David Penney aka Penney's Gemstones  
Operator address: 2400 E 30 S BOX 312 BEAVER UT 84713-0312  
Operator telephone: (435) 438-5522  
Contact: David Penney  
Operator email: ep7@xmission.com

***There is indication the Operator has submitted a Nationwide bond to the BLM in the amount of \$50000.00. The Division has a copy of this bond. In order to meet Division regulatory requirements, the Division must be named as co-beneficiary on this Nationwide Bond in the form of a Letter of Credit. Please contact the bank and ask them to contact the Division for instructions and/or issue an amendment to the LOC listing the Division as co-beneficiary.***

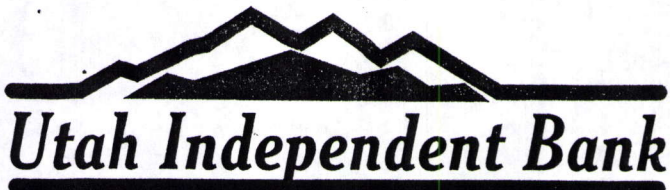
The BLM administers the following surety:

Surety Type: Letter of Credit  
Bank Name: Utah Independent Bank  
Surety Amount: \$50000.00 of which \$9800.00 is reclamation surety for Little Spot  
Account number: \_\_\_\_\_  
Surety Contact Name: Craig A. White  
Surety Contact telephone: 435 438 2433  
Surety Contact email: \_\_\_\_\_

The State of Utah administers the following surety:

Surety Type: Letter of Credit  
Bank Name: Utah Independent Bank  
Surety Amount: \$8800.00  
Account number: \_\_\_\_\_  
Surety Contact Name: Craig A. White  
Surety Contact telephone: 435 438 2433  
Surety Contact email: \_\_\_\_\_





*A Full Service Bank ♦ FDIC Insured*

PO Box 1030  
195 N. Main  
Beaver, UT 84713  
Phone (435) 438-2433  
Fax (435) 438-5885

March 6, 2006

Letter of Credit # \_\_\_\_\_

UTAH DIVISION OF OIL, GAS AND MINING  
1594 West North Temple Suite 1210  
Box 145801  
Salt Lake City, UT 84114-5801

and

UNITED STATES BUREAU OF LAND MANAGEMENT (BLM)  
Utah State Office  
324 So. State  
Salt Lake City, UT 84145

RE: PENNEY'S GEMSTONES, LLC  
LITTLE SPOT MINE

Gentlemen and Ladies:

1. Utah Independent Bank of Beaver, Utah, hereby establishes this Irrevocable Letter of Credit (the "Letter of Credit") in favor of the Utah Division of Oil, Gas and Mining ("Division") for itself and as agent for the BLM ("collectively, the "Beneficiaries") for an aggregate amount not to exceed Eight Thousand Eight Hundred and no/100-----(\$8,800.00) in United States dollars ("face amount") effective immediately; on behalf of Penny's Gemstones, LLC ("Operator") for Little Spot Mining operation under Mine Permit No. S/027/024.
2. This Letter of Credit will expire upon the first event set forth as follows: (a) 5:00 o'clock pm (Salt Lake City time) on March 6<sup>th</sup>, 2007 or (b) the date upon which sufficient documents are executed by the Division to release Penney's Gemstones, LLC from further liability for reclamation of the Little Spot Mine, mine permit #S/027/024, with notice to Bank or Bank by the Division accompanied by the original Letter of Credit with directions for cancellation.

☒ APPROVED



3. This Letter of Credit will be automatically extended for successive periods of one year from the current or any future expiration date unless 90 days prior to the expiration date the Bank gives notice to the Division by any courier service or by registered United States mail "return receipt requested" that the Bank elects NOT to renew the Letter of Credit.
4. Funds under the Letter of Credit are available against the Division's sight draft, in the form of Exhibit A, specifying Letter of Credit No. 34108910 delivered to the office of Utah Independent Bank, 195 North Main, Beaver, Utah 84713. At the Division's sole election, the Division may present sight drafts for less than the Face Amount so long as the aggregate amount of all sight drafts does not exceed the Face Amount. Each draft must be accompanied by a certificate in the form of Exhibit B, signed by a duly authorized representative of the Division.
5. If the Bank receives the Division's sight draft(s) and certificate(s) as provided in Paragraph No. 4 above on or before the expiration or termination of this Letter of Credit, the Bank will make such amount as the Division may specify, within the limits of the second sentence of Paragraph No. 4 of this Letter of Credit, available to the Division no later than the close of business, Salt Lake City time, on the second business day following the Bank's receipt of the sight draft and certificate and in such a manner as the Division may specify.
6. The Bank will give prompt notice to the Operator and to the Division Director of any notice received or action filed alleging the insolvency or bankruptcy of the Bank, or alleging any violations of regulatory requirements, which could result in suspension or revocation of the Bank's charter or license to do business.
7. The Letter of Credit will be governed by the laws of the State of Utah and shall be subject to the Uniform Customs and Practice for Documentary Credit, 1993 revision, International Chamber of Commerce Publication No. 500, as the same may be amended and in effect from time to time ("UCP"). In the event of a conflict between Utah law and the UCP, Utah law shall govern.
8. Proceeds of this drawing will be held by the Division, subject to the Board of Oil, Gas and Mining, after Notice of Hearing, ordering forfeiture of the Bank in accordance with applicable law utilized in full to pay the expenses relating to the reclamation liability, together with the costs of collection, including attorney's fees for the Little Spot Mine, permit No. S/027/024.
9. All communications regarding this Letter of Credit will be addressed to Utah Independent Bank, PO Box 1030, Beaver, Utah 84713, referencing Letter of Credit No. 34108910.

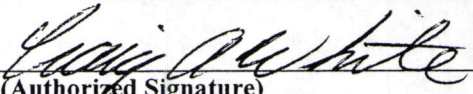


10. In the event of Bank cancellation of this Letter of Credit, the Division may present the sight draft(s) to assure or complete reclamation if the Operator does not replace the Letter of Credit within the ninety days of Bank cancellation notice.

Very Truly Yours,

UTAH INDEPENDENT BANK

By: Craig A. White

  
(Authorized Signature)

Title: President



EXHIBIT A – SIGHT DRAFT

to  
Letter of Credit Number \_\_\_\_\_

_____	_____	_____
Date	City, County	Letter of Credit No.

PAY TO THE ORDER OF: Utah Division of Oil, Gas and Mining,

\_\_\_\_\_ DOLLARS

TO: Utah Independent Bank  
P.O. Box 1030  
Beaver, UT 84713

Utah Division of Oil, Gas and Mining  
1594 West North Temple Suite 1210  
Box 145801  
Salt Lake City, Utah 84114-5801

By: \_\_\_\_\_  
Authorized Signature



EXHIBIT B  
To  
Letter of Credit Number \_\_\_\_\_

I, \_\_\_\_\_ a duly authorized representative of the Utah  
Division of Oil, Gas and Mining, hereby certify that (1) the drawing in the amount of  
\$ \_\_\_\_\_, by sight draft accompanying this certificate, under  
Letter of Credit No. \_\_\_\_\_ dated \_\_\_\_\_ issued by you is permitted  
under the provision of the Letter of Credit, (2) the Letter of Credit has neither expired nor  
terminated pursuant to its terms, (3) the amount of the sight draft, together with any  
amounts previously drawn under the Letter of Credit, does not exceed the Face Amount,  
and (4) the amount to be drawn is necessary to assure or complete reclamation of the  
\_\_\_\_\_ (name of mining project), number \_\_\_\_\_ (permit number) in  
accordance with applicable law.

The Utah Division of Oil, Gas and Mining

By: \_\_\_\_\_  
Authorized Signature

Date \_\_\_\_\_